

Message Text

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PAGE 01 STATE 308899
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TO AMEMBASSY ANKARA IMMEDIATE
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AMEMBASSY BONN
AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMCONSUL FRANKFURT
AMCONSUL ZURICH

C O N F I D E N T I A L STATE 308899

EXDIS, USOECD, USEEC

E.O. 11652: GDS

TAGS: EFIN, TU

SUBJECT: TURKISH/IMF NEGOTIATIONS

REF: (A) ANKARA 9228 (B) ANKARA 9154 (C) STATE 277946

1. OFFICERS FROM DEPARTMENT, TREASURY, EXIM BANK, AND
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FEDERAL RESERVE MET INFORMALLY DECEMBER 23 IN OFFICE U.S.
EXECUTIVE DIRECTOR WITH WOODWARD, LEADER OF IMF TEAM
NEGOTIATING WITH TURKEY, AND WHITTOME, DIRECTOR OF IMF
EUROPEAN DEPARTMENT. FACT THAT THIS DISCUSSION TOOK PLACE
SHOULD NOT BE REVEALED TO GOT OFFICIALS OR OTHERS.

2. WOODWARD SAID THAT BEFORE TALKS IN ANKARA HAD RECESSED

FOR HOLIDAYS IMF AND TURKISH DELEGATIONS HAD MADE CONSIDERABLE PROGRESS TOWARD STANDBY AGREEMENT AND HAD SET FORTH THEIR RESPECTIVE POSITIONS IN MEMORANDUM WHICH HAD BEEN LEFT IN ANKARA. TWO SIDES WERE "CLOSE TO AGREEMENT" ON MOST ELEMENTS OF PROGRAM, INCLUDING FURTHER DEPRECIATION, FURTHER INCREASES IN CONTROLLED PRICES AND TAX INCREASE LEGISLATIVE PROPOSALS. THERE CONTINUE TO BE DIFFERENCES WITH REGARD TO HIGH GOTT PUBLIC SECTOR INVESTMENT PROGRAM AND NEED FOR INCREASES IN INTEREST RATES. WOODWARD WAS RELUCTANT TO DISCUSS SPECIFIC COMPONENTS WITH USG OFFICIALS, BUT NOTED THAT TURKISH OFFICIALS HAD BRIEFED TURKISH PRESS

ON TALKS WITH IMF, (ANKARA 9065) A STEP WHICH HE FOUND USEFUL TO BEGIN TO CONDITION TURKISH PUBLIC ON DIMENSIONS OF PROBLEM AND PROBABLE 1978 MEASURES.

3. WOODWARD SAID IMF TEAM WAS PREPARED TO RETURN TO ANKARA IN EARLY JANUARY OR WHENEVER TURKS WANTED. NO FIRM DATE HAD BEEN SET FOR RESUMPTION OF DISCUSSIONS.

4. WHILE, AS NOTED ABOVE, DECEMBER TALKS HAD BROUGHT TWO SIDES CLOSER TOGETHER, WOODWARD EXPRESSED CONSIDERABLE UNCERTAINTY WHETHER IMPLICATIONS OF PROGRAM WERE CLEARLY UNDERSTOOD AMONG TURKEY'S POLITICAL LEADERS AND WHETHER, IN EVENT OF EARLY CHANGE OF GOVERNMENT, ECEVIT OR SOME OTHER PRIME MINISTER WOULD BE WILLING ACCEPT SUCH A PRO-CONFIDENTIAL

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GRAM WITHOUT CONSIDERABLE RENEGOTIATION. WOODWARD ESTIMATED THAT PROGRAM UNDER DISCUSSION WOULD RESULT IN (A) SHARP ACCELERATION OF INFLATION RATE IN 1978 DUE INTER ALIA TO FURTHER DEVALUATION AND CONTROLLED INCREASES TO PERHAPS 30-50 PERCENT ANNUAL RATE IN FIRST QUARTER AFTER PROGRAM IMPLEMENTED, (B) 5-10 PERCENT (ANNUAL RATE DURING FIRST QUARTER) DECLINE IN REAL GNP; AND (C) 17 PERCENT DECREASE IN IMPORT VOLUME. WOODWARD WAS ENCOURAGED THAT STATE PLANNING OFFICE REPS AND OTHER PARTICIPANTS IN DECEMBER TALKS HAD BEGUN TO RECOGNIZE DIMENSIONS OF TURKEY'S BALANCE OF PAYMENTS PROBLEM.

5. IMF OFFICIALS NOTED THAT MAJOR INTERNATIONAL BANKS MEETING IN FRANKFURT DECEMBER 16 (FRANKFURT 9532 AND ANKARA 9146) HAD CLEARLY MADE THEIR EXTENSION OF CREDITS DEPENDENT ON TURKEY/IMF AGREEMENT AND ANTICIPATED THAT FRG AND OTHER PARTICIPANTS IN OECD CONSORTIUM FOR TURKEY WOULD BE RELUCTANT DO ANYTHING WHILE IMF AND TURKEY WERE NEGOTIATING. THEY NOTED THAT SOME SWISS AND GERMAN BANKS APPARENTLY WERE PUSHING IDEA OF GOVERNMENT GUARANTEES FOR PRIVATE BANK CREDITS TO TURKEY BUT NOTED THAT THIS IDEA TOO COULD PROBABLY NOT MOVE FORWARD AT LEAST UNTIL

IMF SITUATION CLARIFIED. IBRD WAS PREPARED TO CONTINUE TO DISBURSE ON OLD LOANS SO LONG AS GOT WAS CURRENT ON INTEREST AND OTHER PAYMENTS BUT WOULD HOLD OFF ANY NEW PROGRAMS PENDING CONCLUSION IMF/TURKEY TALKS.

6. WOODWARD ALSO SAID IMF TEAM HAD WORKED CLOSELY WITH TURKISH CENTRAL BANK TO HELP IT CLARIFY EXACTLY WHAT CURRENT LIABILITIES EXISTED. HE NOTED SHARP DECLINE IN NOVEMBER IMPORT LEVEL AND EXPRESSED DOUBT WHETHER ARREARS WERE CONTINUING TO BUILD UP. WOODWARD ALSO NOTED HIS UNDERSTANDING THAT GERMAN AND JAPANESE FIRMS HAD BROUGHT SUIT AGAINST TURKISH ENTITIES FOR NON-PAYMENT.

7. WOODWARD ASKED DEPTOFF TO KEEP HIM INFORMED RE CONFIDENTIAL

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POLITICAL DEVELOPMENTS IN TURKEY OVER NEXT WEEK/10 DAYS.

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